

# 2022 WTA Spring Educational Forum Economic Update

April 2022

# Introduction

## Lennie Blakeslee

- THANK YOU to WTA for the opportunity to join you here in sunny Florida
- Sector Vice President, Communications Division
  - Manage CoBank's Western Team Based in Denver
  - Alaska, Oregon, Washington, Montana
  - RLEC, CLEC, CATV, Fiber, Data Center, Tower and Unified Communications
  - Rural Background: Sterling, CO – Burlington, CO – Elizabeth, CO

# CoBank at a Glance

- A broad-based cooperative financial services organization serving vital industries across the rural communities of America:
  - Agribusiness
  - **Communications**
  - Energy
  - Water
  - Community Facilities
- One of the world's 50 safest banks (one of only three in the U.S.) (Ranked by Global Finance magazine)
  - AA- rated by both S&P and Fitch
  - *Year ended December 31, 2020*
  - Total Assets of \$159 billion, Net Income of \$1.3 billion
  - Total Capital Ratio was 15.2%, compared with the 8.0% minimum; 171 days of liquidity vs. 90 day regulatory minimum
- Cooperatively owned by approximately 3,200 customers
- Headquartered outside Denver, CO; regional offices and banking centers throughout the country, with approximately 1,000 employees nationwide

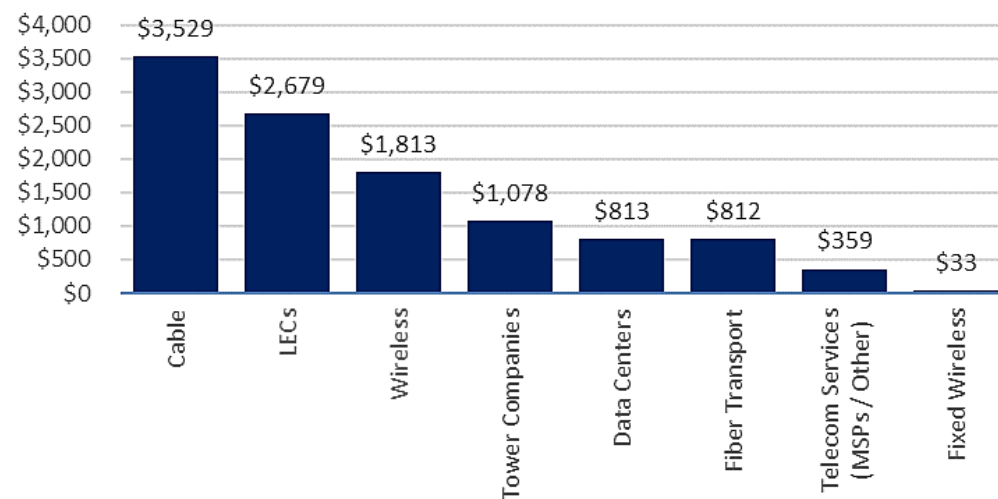


# CoBank's Telecommunications Portfolio

- Leading provider of capital to the Communications industry serving approximately 147 Communications companies with \$4.4 billion outstanding and \$5.5 billion in commitments as of March 31, 2021.
  - Including loan participations to the Farm Credit System, approximately \$11.1 billion in loan commitments are outstanding to Communications companies.
- Dedicated Communications lending staff including eight Relationship Managers and ten credit professionals
- CoBank's Capital Markets team specializes in the Communications industry and provides access to both Farm Credit System and Commercial Bank capital

**Total Commitments by Sector as of 3/31/21**

*\$ in millions*



# Agenda

- **Economic Overview**
- **Interest Rate Outlook**
- **Ukraine Impact on US Agriculture**
- **Brief State of the Rural Communications Industry**

# Economic Overview

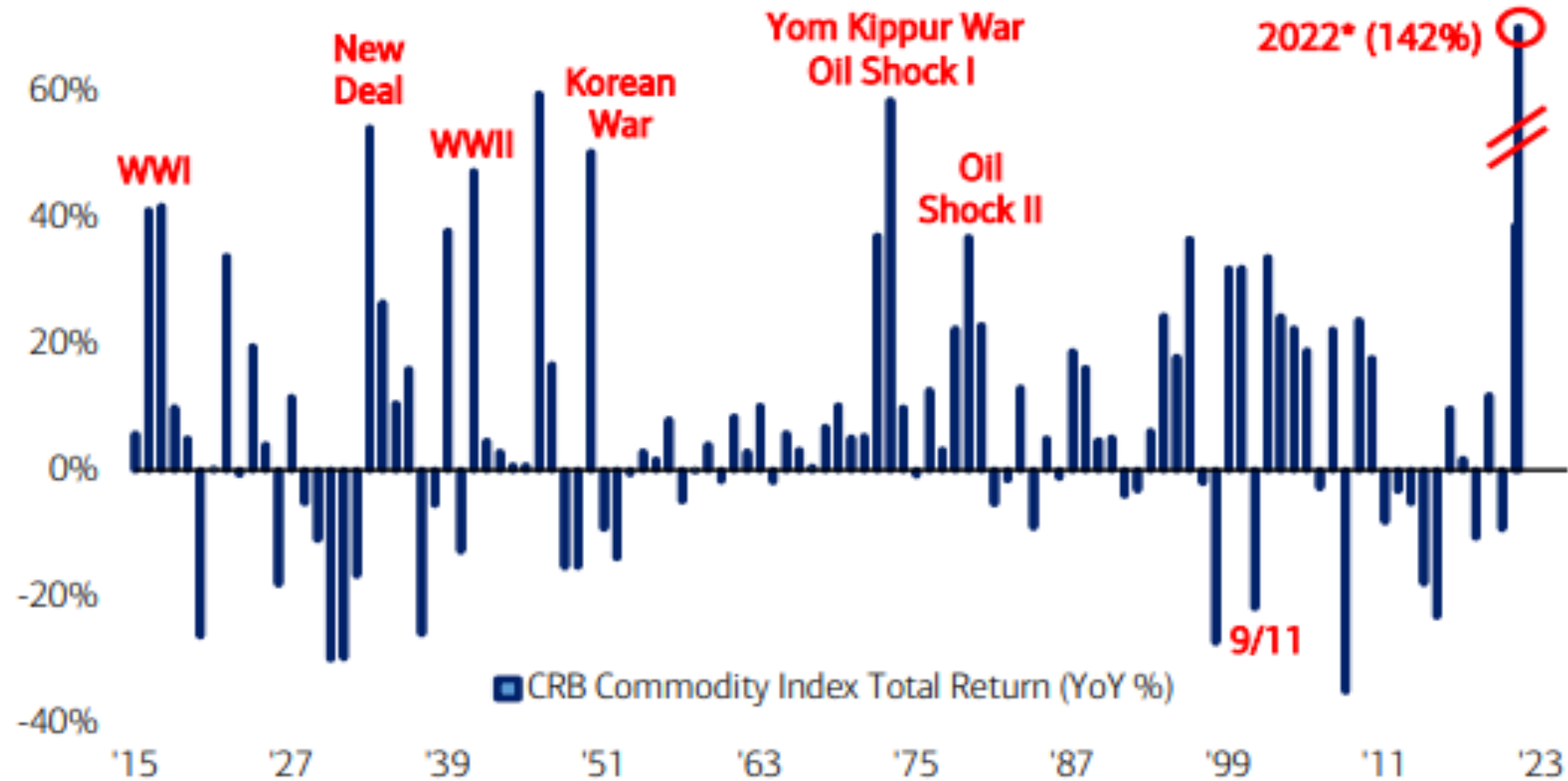
# Jamie Dimon JPMorgan Chase – April 8, 2022

*“America and the rest of the world are facing the confluence of three important and conflicting forces.”*

1. “...**a strong U.S. economy**, which we hope, has COVID-19 in its rearview mirror.”
2. “...**high inflation**, which means rising interest rates and, importantly, the reversal of quantitative easing (QE).”
3. “...**the war in Ukraine** and the accompanying humanitarian crisis, with its impact on the global economy in the short term, as well as its significant impact on the geopolitics of the future.”

# War in Ukraine is a shock to commodities and inflation

CRB Commodity Index Total Return Y/Y %

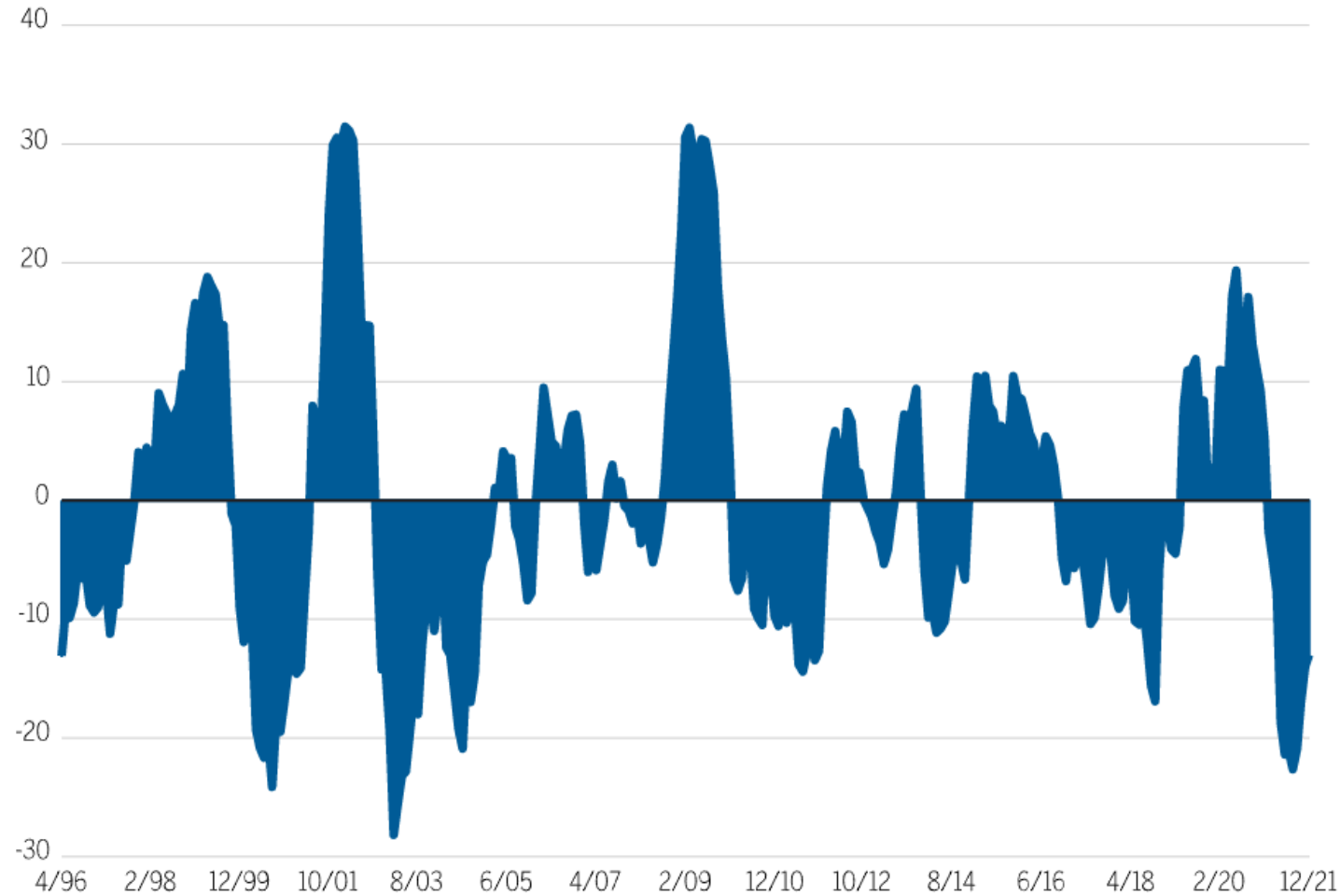




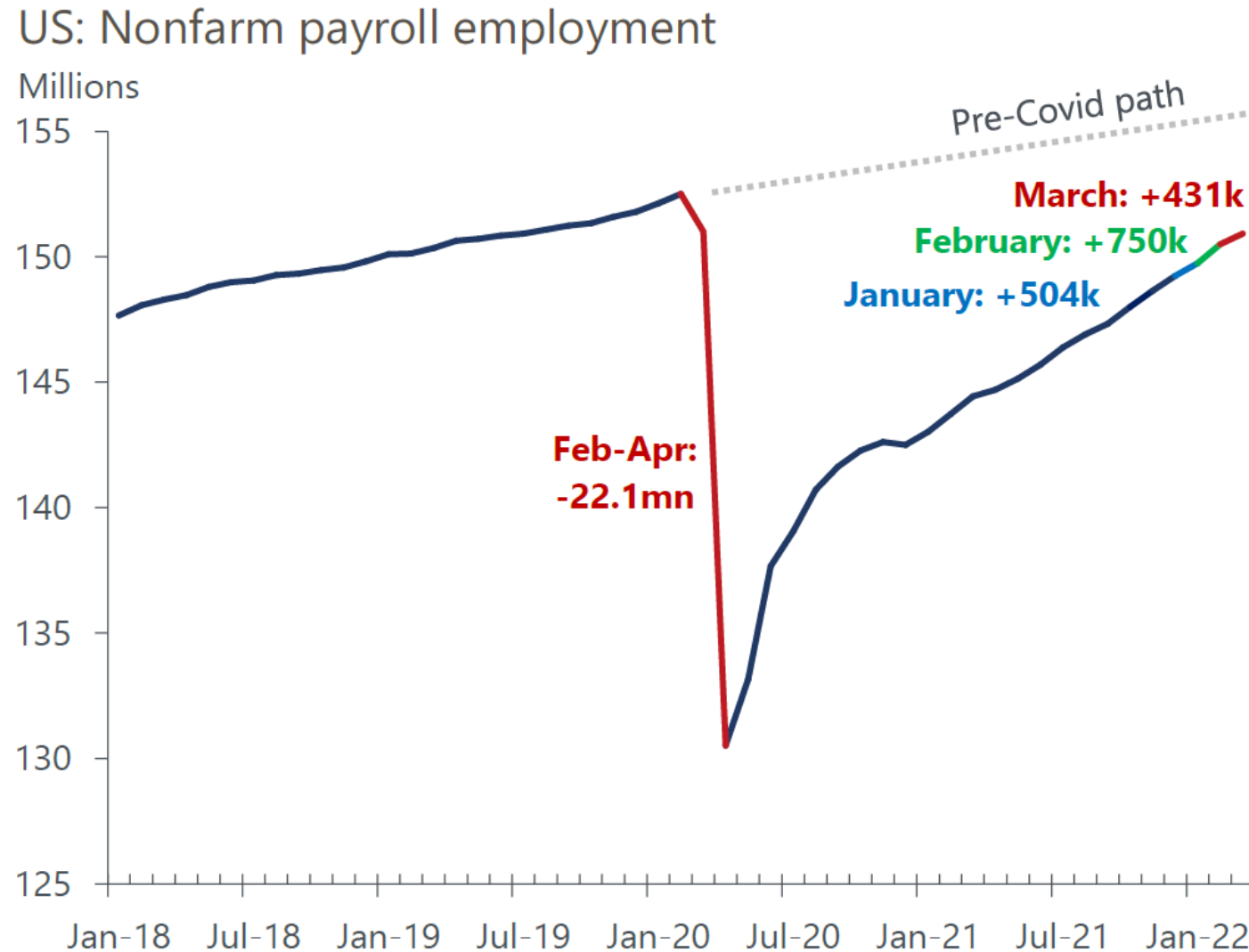
# U.S. commodity inventories have plunged at the fastest rate since 2003

## Commodities inventories' substantial decline

12-month change in aggregate commodities inventories (%)



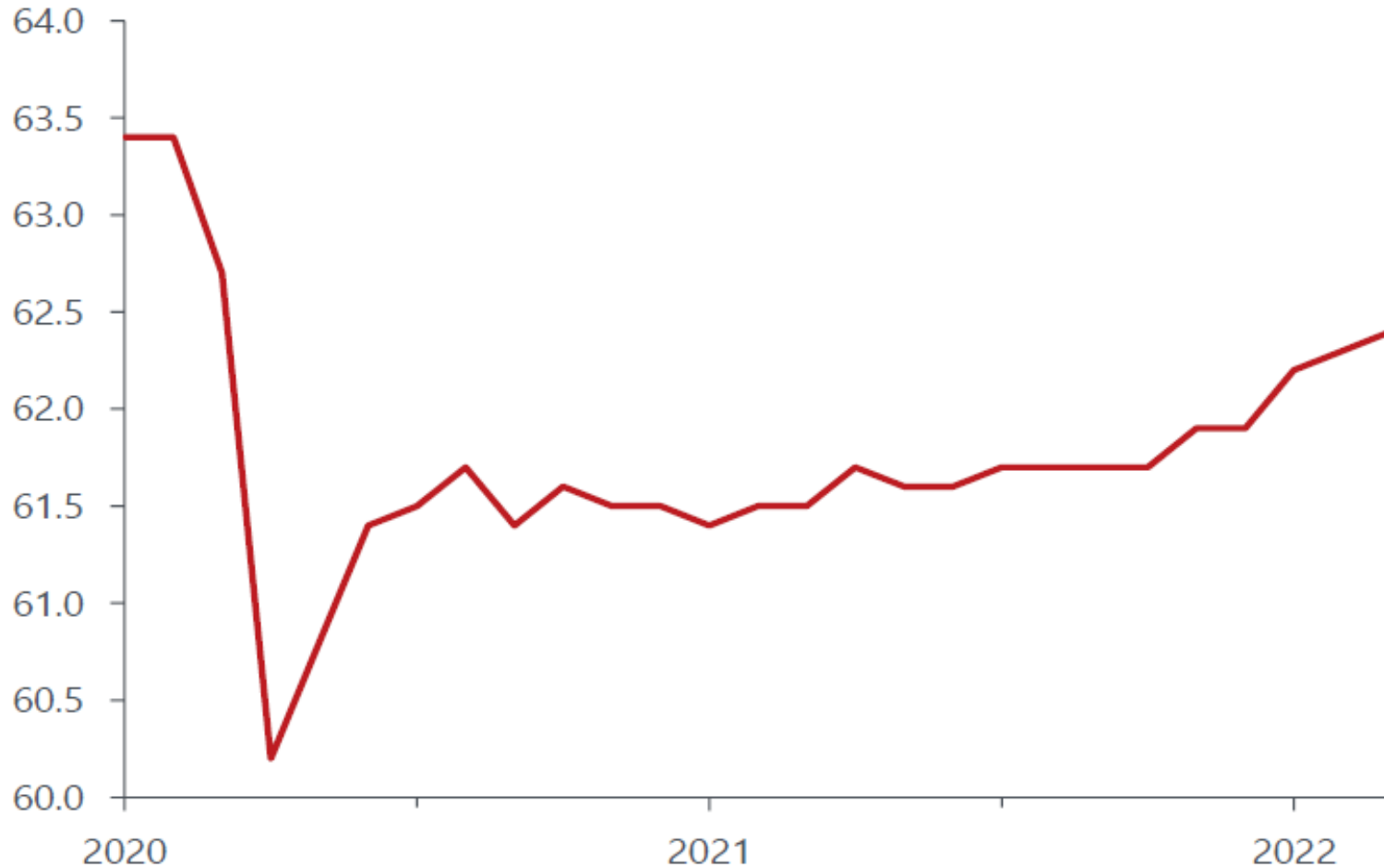
# We should fully recover jobs lost by Q3, but catching up with the pre-Covid trend will be difficult



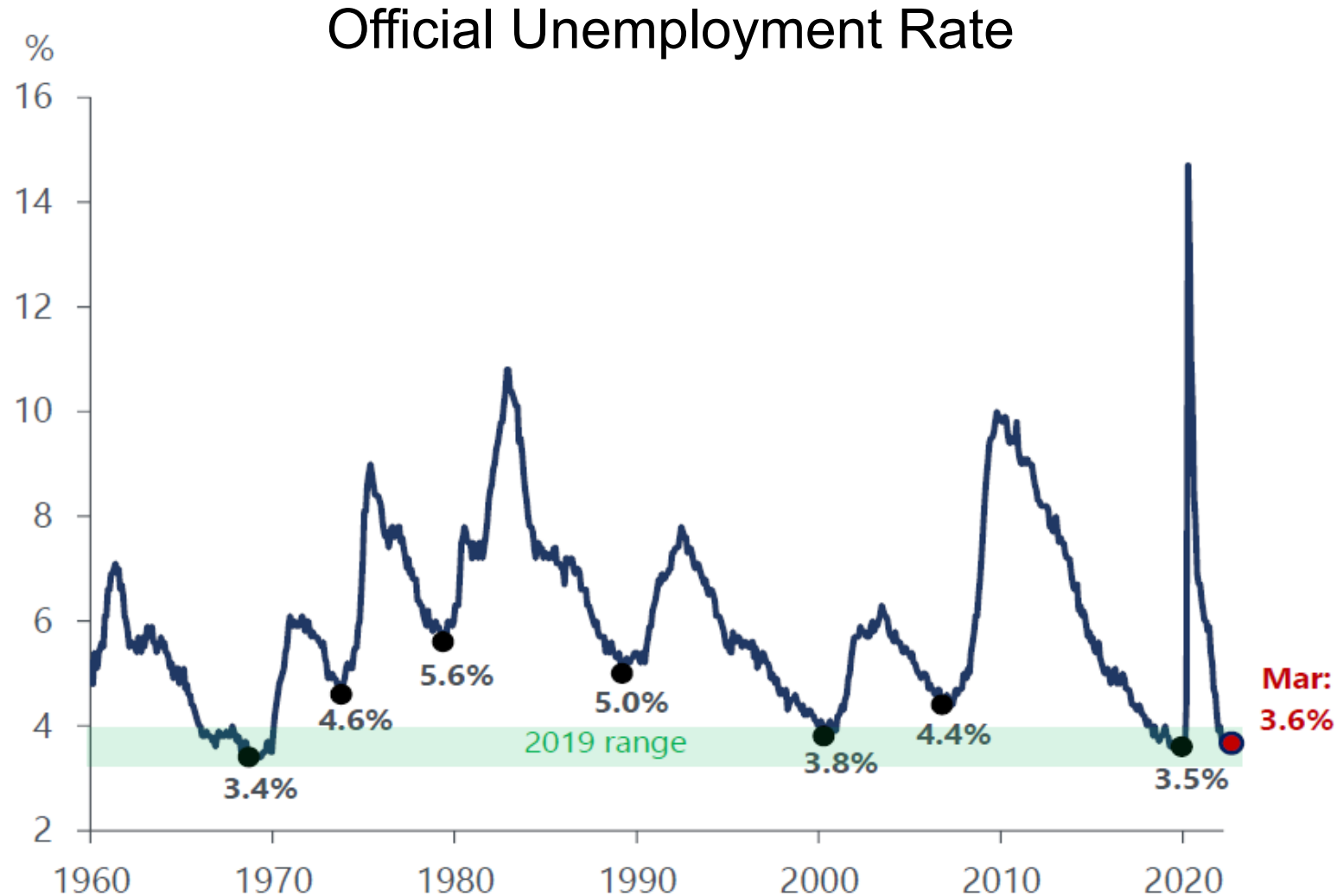
# The labor force participation rate hit a post-pandemic high in March, but a couple million people have yet to return to job market

US.Labor Force Participation Rate

Percent

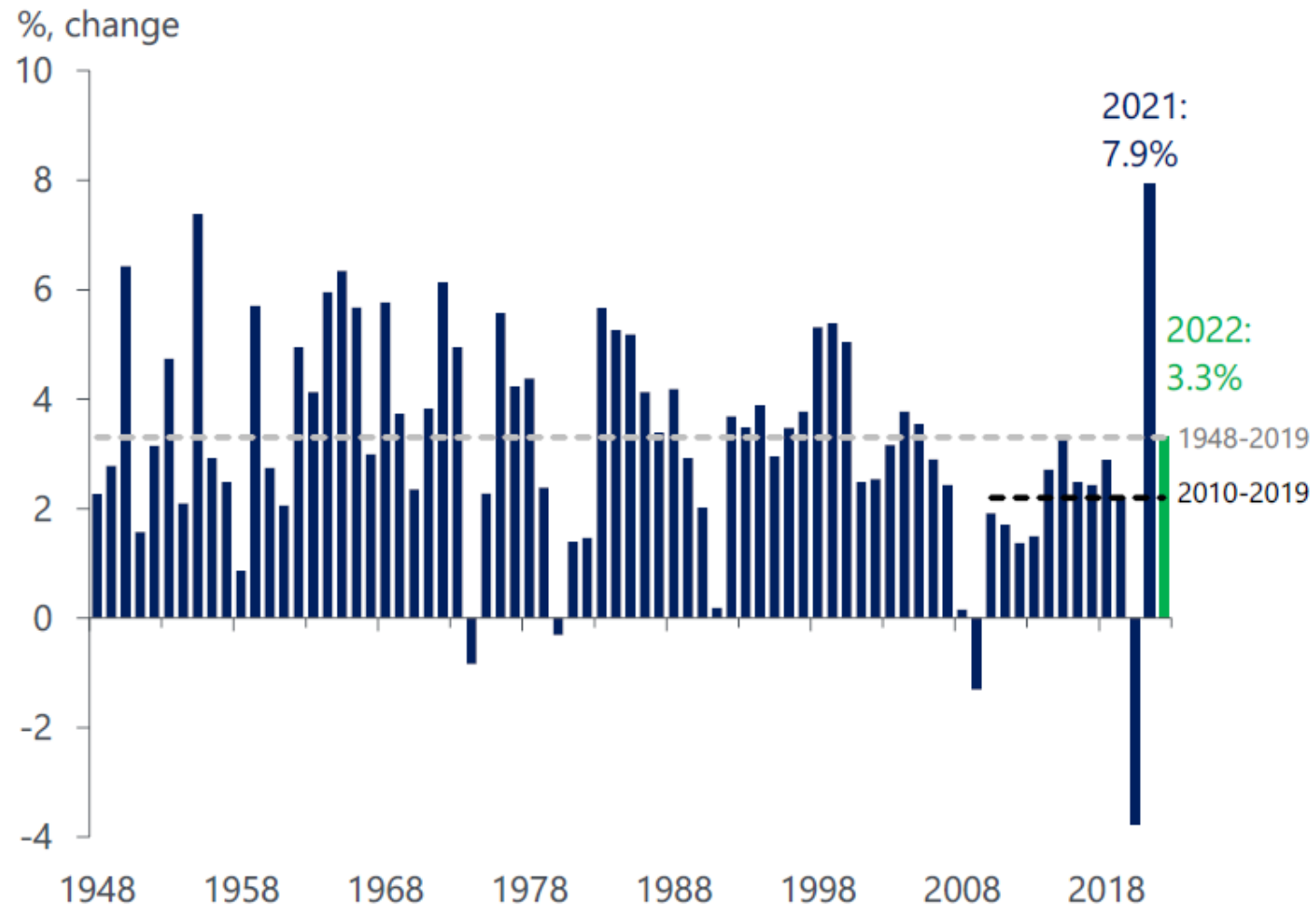


# The unemployment rate is rapidly falling and nearly back to pre-pandemic level



# Consumers will continue to spend

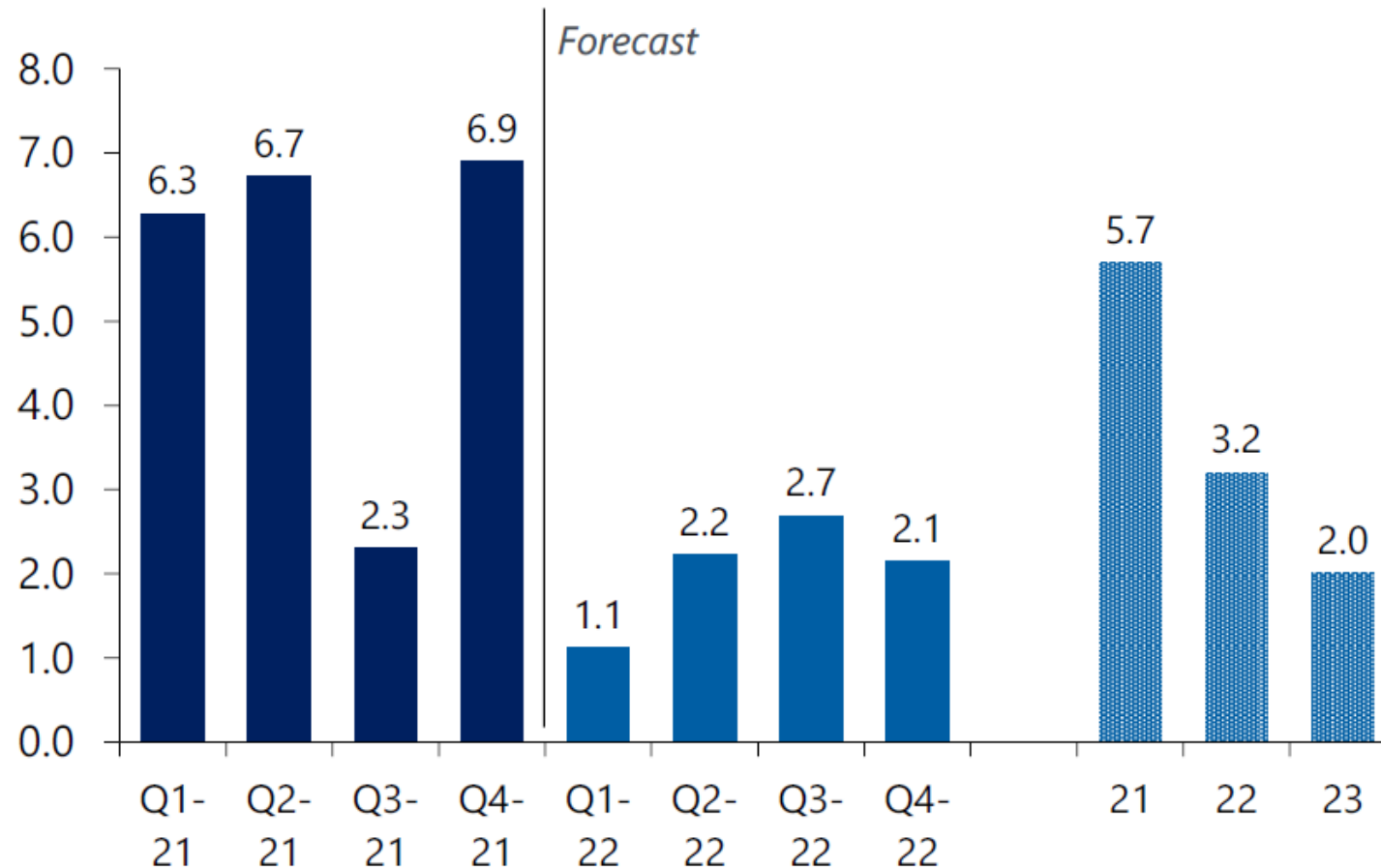
US: Consumer spending growth will remain solid this year



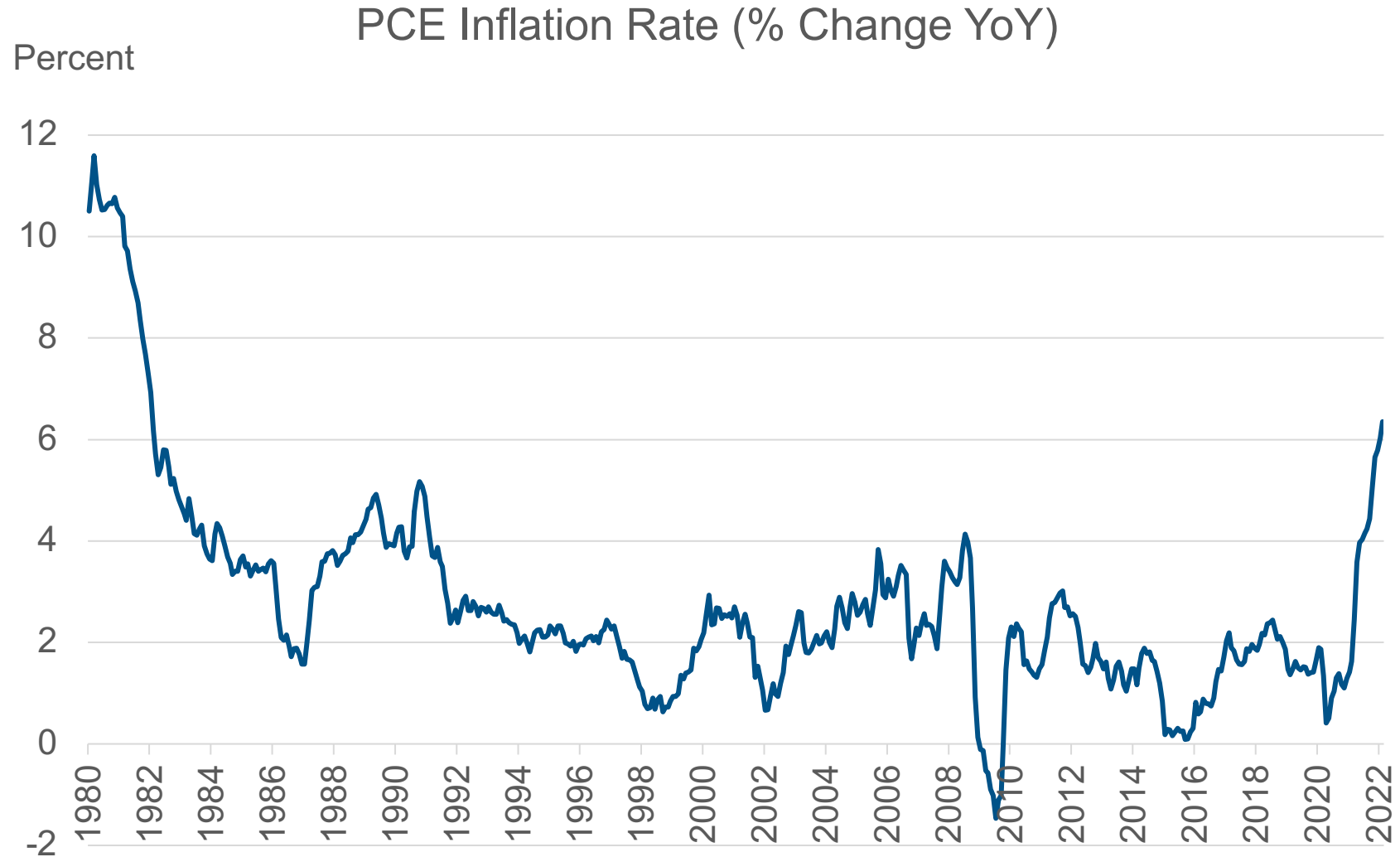
# Omicron dented growth in Q1. Inflation, rate increases, and lack of fiscal stimulus will dampen growth the rest of 2022

## US: GDP Forecast

Real GDP growth, % annualized



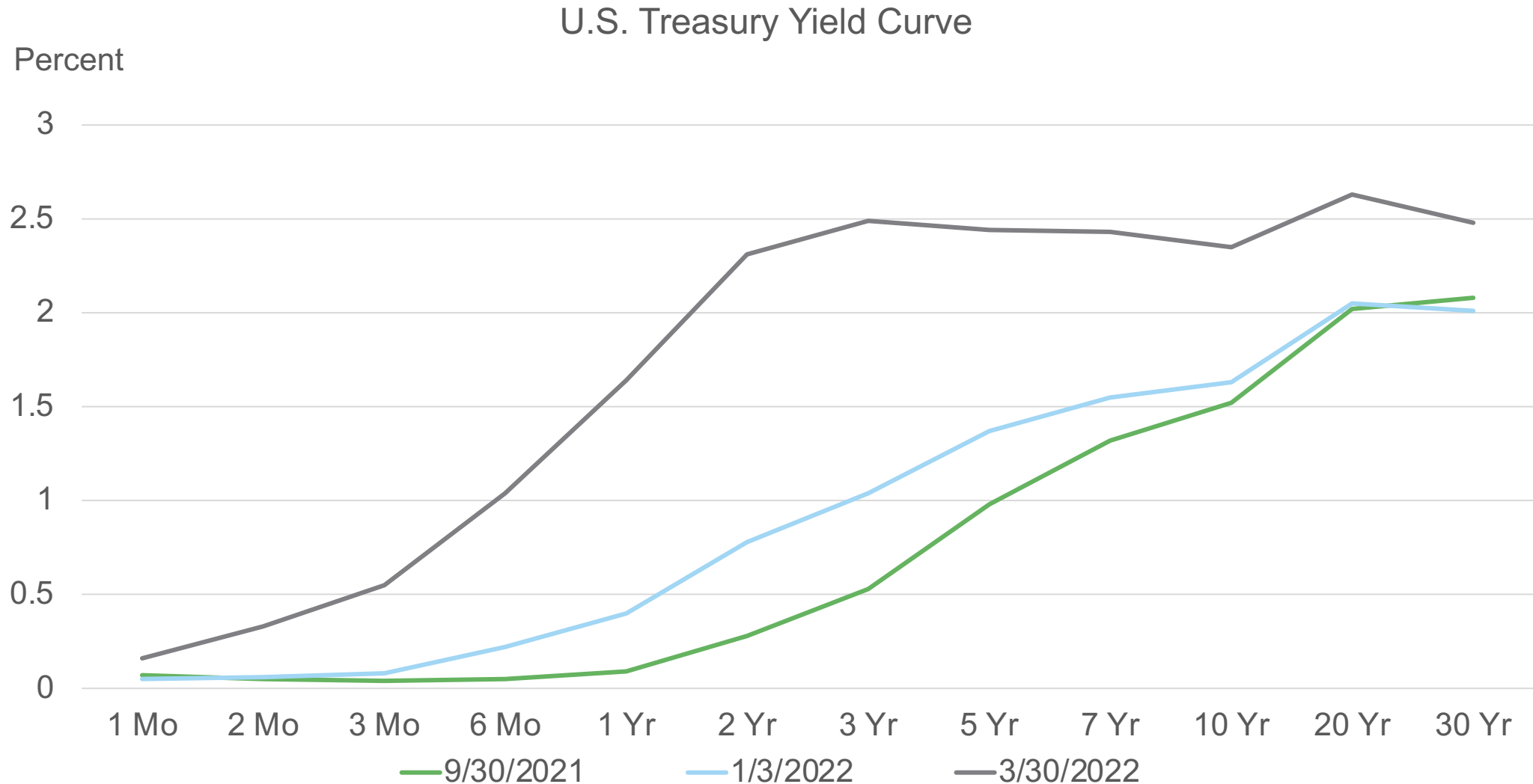
# And, what about inflation?



# Interest Rate Outlook

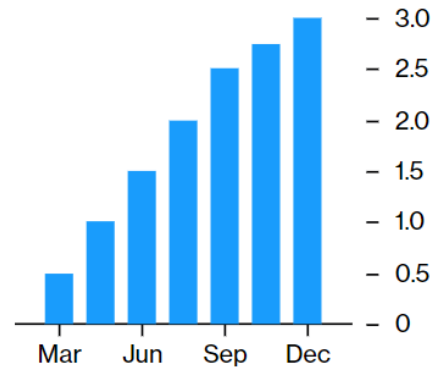


# The middle part of the yield curve has flattened, signaling near-term rate increases and concern about future growth

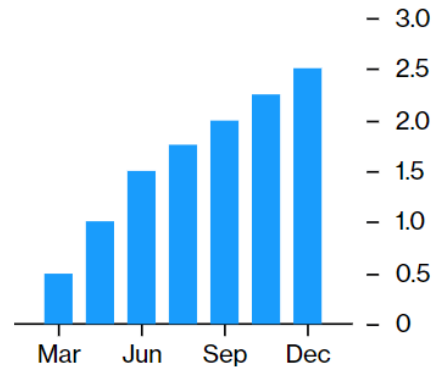


# Investment banks are forecasting another 200-250 bp in rate hikes this year

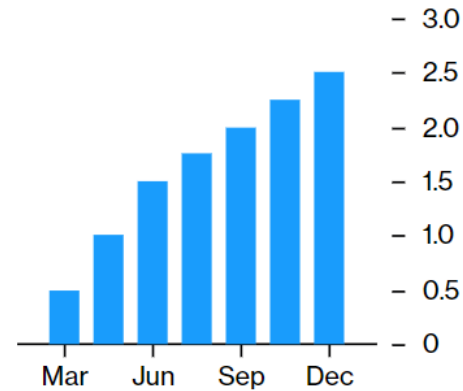
Citi



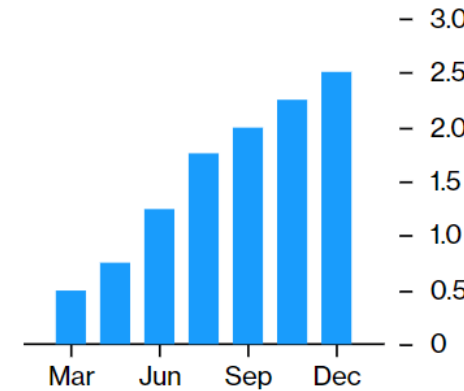
Goldman



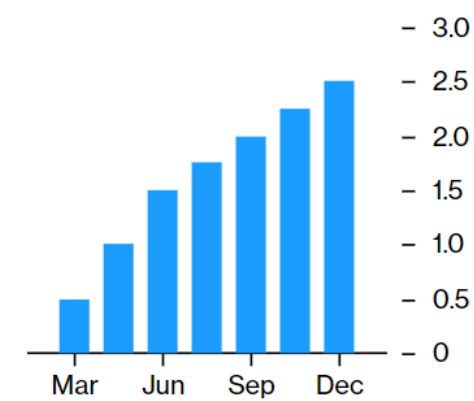
JPMorgan



BofA



Morgan Stanley



# Ukraine Impact on U.S. Agriculture

Source:

# Ukraine: Grain Market Implications

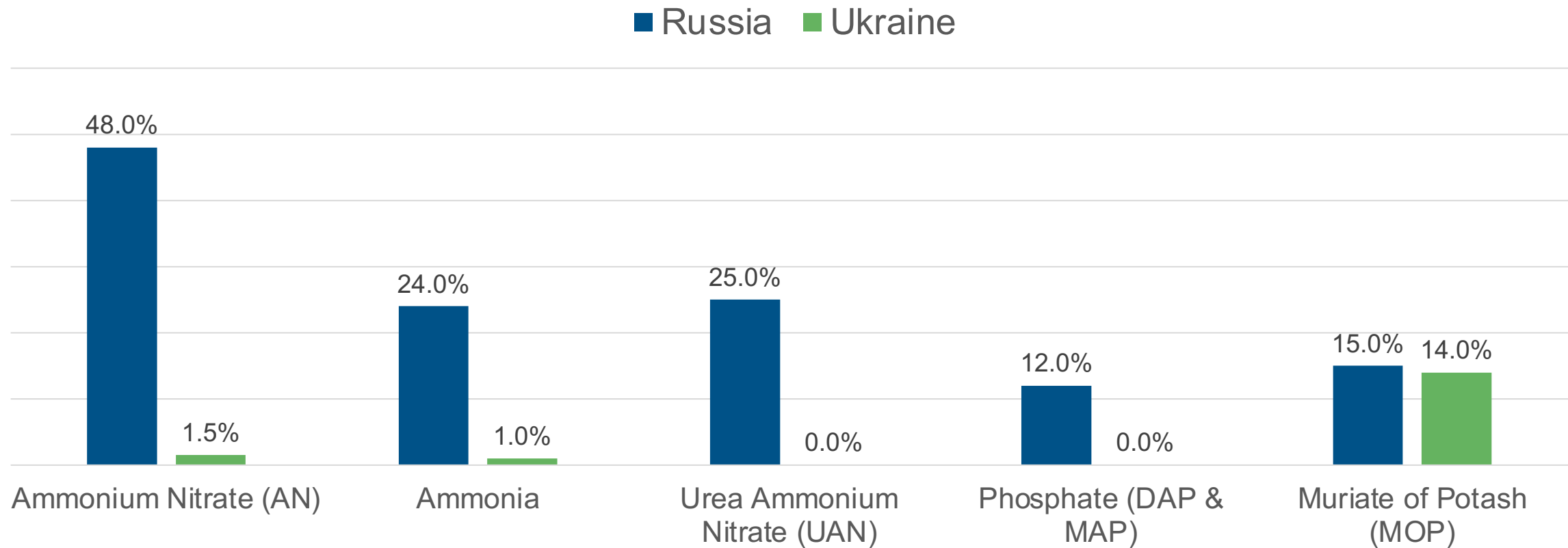
- The conflict will delay/reduce planting of Ukraine corn, barley and sunflower crops in March/April
- Ukraine winter wheat (dormant now) may not be harvested in July/August
- Opportunities for U.S. Agriculture:
  - ❖ Corn exports should benefit in the short-term
  - ❖ Demand for Soybeans/Soy Oil will increase as disruptions to Russian/Ukraine sunflower oil tightens an already tight global vegetable oil market
  - ❖ Winter Wheat export demand remains insatiable;
    - ❖ However, the U.S. will likely need to wait until next season to participate
    - ❖ Reason: current crop yields likely to be impaired by drought and most product in the bins is already sold

# Ukraine: Fertilizer Market Implications

- Fertilizer prices likely to remain near all-time highs:
  - Production disruptions of Russia/Belarus/Ukraine potash and phosphate
  - Rising natural gas will impact feedstock costs globally
  - Existing and new sanctions will have an impact and may include export shutdowns
- Opportunities for North American Agriculture:
  - **Potash producers** (e.g., Nutrien) can increase production at presumably very high margins
  - **Nitrogen producers** (e.g., CF Industries) should have a similar opportunity especially if U.S. natural gas fracking resumes

# Fertilizer Facts

Ukraine has 14% share of global potash trade. However the bigger concern is Russia's leading positions in Ammonia and Urea, whose export to Europe and Brazil will be restricted by sanctions and port closures



# Grain & Farm Inputs Implications

- Grain and Farm Supply Cooperatives will require more capital to fund margin calls
- Farm supply cooperatives need to very carefully source fertilizer and manage the spread between wholesale and retail prices
- The entire system, including agricultural producers, will need to brace for:
  - Higher fertilizer prices amidst production shocks and export restrictions
  - Cost inflation: diesel, labor, equipment, feed
  - Further supply chain problems
- All of which ties back to the war in Ukraine and its impact on commodities

# Conclusions

- While impossible to predict the length of the war, global grain and fertilizer production and supply chains could be impaired for 1-2 years at minimum
- Numerous unknowns exist, which are constantly changing, which will need to be considered, including:
  - *China's level of support for Russia (overt or covert)*
  - *Whether Ukraine is simply just the first part of broader Russian aggression*
- **Volatility will continue for foreseeable future**



# Brief State of the Rural Communications Industry

Source:

# Valuations Have Increased

- Focus on the importance of rural broadband = more support programs/funding
- More connected households and increased speed tiers = higher revenue
- Fewer “platforms” + more investors + available debt = higher multiples (2018 v. 2021)

	Enterprise Value Multiples
Tower	15.0x to 20.0x
Data Center	12.0x to 15.0x
Fiber	10.0x to 13.0x
Cable	8.0x to 10.0x
Wireless	5.0x to 7.0x
Telco	4.0x to 6.0x
WISP	2.0x to 4.0x

	Enterprise Value Multiples
Tower	25.0x to 30.0x
Data Center	20.0x to 25.0x
Fiber	15.0x to 20.0x+
Cable	12.0x to 15.0x
Wireless	5.0x to 9.0x
Telco	5.0x to 8.0x
WISP	2.0x to 4.0x

# Random Predictions

- Merger & Acquisition activity will continue to come “down market” (smaller companies)
- Valuations will hold until there is a negative catalyst
- Government funding in all forms will be material
- Companies receiving any form of governmental funding/support may at some point be required to meet “ESG” criteria
- ESG = Environmental, Social and Corporate Governance; sustainability (green) and societal impact of projects for which funding/financing is received
- CoBank will continue to support our mission customers, whom provide critical broadband and advanced communications services to the people whom live, work and play in rural America

# Questions

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**Thank you!**

**Lennie Blakeslee**  
**[lblakeslee@cobank.com](mailto:lblakeslee@cobank.com)**  
**Office: 303-740-4191**  
**Cell: 303-263-7877**